OUTLOOK

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Legislative

2001 SDRS Legislative Summary

The board's proposed legislation for 2001 would have:

- Increased the benefit formula multipliers for Class A credited service earned after July 1, 2002;
- Allowed members with Class A credited service to retire earlier without a penalty;
- Given the board, with approval of the Retirement Laws Committee, the option of making contributions to dividend accounts established for each SDRS member.

SB 47

Increasing Class A Benefit Formulas

The board supported legislation providing for an equal increase to the Class A Standard Formula multiplier and the Class A Alternate Formula multiplier for all service earned after July 1, 2002. The standard formula multiplier would have risen from 1.3 percent to 1.55 percent (with no Social Security offset) and the alternate formula multiplier would have risen from 2.0 percent to 2.25 percent (less 80 percent of Primary Social Security).

This increase in benefits would have been funded by the increase in contributions for all Class A members beginning on July 1, 2002. The amount of that contribution

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The Results of the Legislative Session at a Glance

Bill	Description	Who Would Have Benefited	Approximate Cost to System	The Vote in Senate	Vote in House Retirement Laws Committee
SB 47 as Amended	Increase the Class A Standard and Alternate Formula multipliers for service after July 1, 2002	All Class A members with credited service after July 1, 2002	No cost since funded with increased contributions	Passed 34 to 0	Killed 4 to 1
SB 48	Improve special early retirement by changing the rule of 85 to a rule of 80 while continuing a minimum retirement age of 55	All active Class A members choosing special early retirement	$14.9 million	Passed 29 to 4	Passed with no recommendation 5 to 0*
SB 49	Create a special dividend account for all SDRS members	All retired and active SDRS members	No cost	Passed 20 to 13	Killed 5 to 0

*SB 48 was "hoghoused" in the House of Representatives to become a bill requiring an Interim Study of SDRS. The "hoghoused" bill subsequently failed in the Senate.

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increase will be a total of two percent—one percent paid by members and one percent paid by their employers.

This bill passed the Senate but was killed in the House Retirement Laws Committee by a four to one vote.

SB 48 Allowing Class A Members to Retire Earlier

As requested by the Interim Retirement Laws Committee at its October 16, 2000 meeting, the board proposed amending the special early retirement for Class A members. This bill changed the rule of 85 to a rule of 80 while continuing a minimum retirement age of 55. If passed, it would have meant that a Class A member with a combination of age and years of credited service that added up to 80 could retire without a benefit reduction.

This bill passed the Senate, was passed out of the House Retirement Laws Committee with no recommendation, and was then "hoghoused" in the House of Representatives to become a bill requiring an Interim Study of SDRS. The "hoghoused" bill subsequently failed in the Senate.

SB 49 Creating Member Dividend Accounts

The board proposed the creation of a special dividend account for all SDRS members. This bill would have allowed the board to establish a defined-contribution dividend account for all SDRS members, active and retired. The dividend amount would have been proportionate to the total contributions a member and the member's employer had made to SDRS. The board, with the approval of the Retirement Laws Committee, would have had the option to fund the dividend account in any given year.

This billed passed the Senate but was killed in the House Retirement Laws Committee by a five to zero vote.

In addition, the board had requested, and the Governor recommended in his FY 2002 budget, an increase to the SDRS staff by three full-time employees. This request was killed by the Appropriations Committee. OUTLOOK

SDRS Board Notes

The following is a summary of major issues that came before the SDRS Board of Trustees at its February 5, 2001, meeting and its regular meeting on April 11, 2001.

February 5, 2001

A special meeting of the SDRS Board of Trustees was called via teleconference to discuss an amendment made to SB 47 by the Senate Retirement Laws Committee. The board passed a motion supporting SB 47 as amended and specifically supporting the same numerical increase for the Class A Alternate Formula multiplier as for the Class A Standard Formula multiplier for all credited service on and after July 1, 2002.

Trustee Attendance Via Teleconference at Board Meeting

Present: Brian Berglin, Elmer Brinkman, Carol Burch, Tracy Dahl-Webb, James Hansen, Louise Loban, Kathy "K.J." McDonald, David Merrill, Robert Overturf, Pamela Roberts, Lowell Slyter, Donald Zeller, Sandra Zinter, Judge Steven Zinter.

Absent: Patrick Jones, Stephen Myers, Dan Viedt

April 11, 2001

Budget Report—The board reviewed the SDRS and SRP FY2002 budgets approved by the Legislature. The three additional full-time employees requested by SDRS and recommended by the Governor were not approved by the Appropriations Committee.

Legislative Report—Mr. Asher briefly reported on the 2001 Legislative Session.

Investment Update—Steve Myers, State Investment Officer, reported on SDRS's total fund returns for the current fiscal year to date.

Member Issues—The board reviewed the Member Issues File and discussed proposed member issues.

Effective Rate of Interest—The board set the effective rate of interest for FY2002 at 5.238 percent.

Reemployment of Retirees—The board discussed various alternatives for resolving the reemployment of retirees issue.

Income-Replacement Goals—The board discussed the role and history of the SDRS benefit formulas and Social Security in meeting the income-replacement goals.

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Present: Brian Berglin, Elmer Brinkman, Carol Burch, Tracy Dahl-Webb, James Hansen, Louise Loban, Kathy "K.J." McDonald, David Merrill, Stephen Myers, Pamela Roberts, Lowell Slyter, Dan Viedt, Donald Zeller, Sandra Zinter, Judge Steven Zinter.

Absent: Patrick Jones, Robert Overturf

Outlook is produced to communicate the plan provisions, changes in law, and issues of interest to the members of the South Dakota Retirement System. It is published with funds provided through the contributions of teachers, school boards, state government, state employees, county commissions, county employees, municipal governments, and municipal employees. Fifty thousand copies of this document were printed by SDRS at a cost of 10 cents per document.

Retirement Policy

Understanding Why the SDRS Board Decided Against Major Benefit Improvements

For the first time since 1996, the SDRS board decided in December against recommending major improvements in SDRS benefits. The decision that increasing benefits in 2001 could jeopardize the financial strength of the system came after a careful analysis of economic forecasts, the projected investment performance and the potential negative impact on the dollars available in the Reserve for Funding Long Term Benefit Goals.

The decision, however, was not universally accepted. Consequently, a bill that was not supported by the board was introduced in the Senate that would have spent approximately $127 million on benefit improvements beginning on July 1, 2001. The bill failed in committee.

To understand the "why" of the board's decision, it's necessary to recall some facts.

- SDRS benefit improvements are paid for with the investment earnings of the SDRS Trust Fund.
- The first eight percent of Trust Fund earnings are used to pay the benefits already promised to members.
- Earnings over eight percent are set aside (over a five-year period) in the Reserve for Funding Long Term Benefit Goals.
- Earnings less then eight percent (over a five-year period) reduce the Reserve for Funding Long Term Benefit Goals.
- The Reserve for Funding Long Term Benefit Goals is used to fund benefit improvements or make up lost dollars if Trust Fund earnings fall below eight percent.

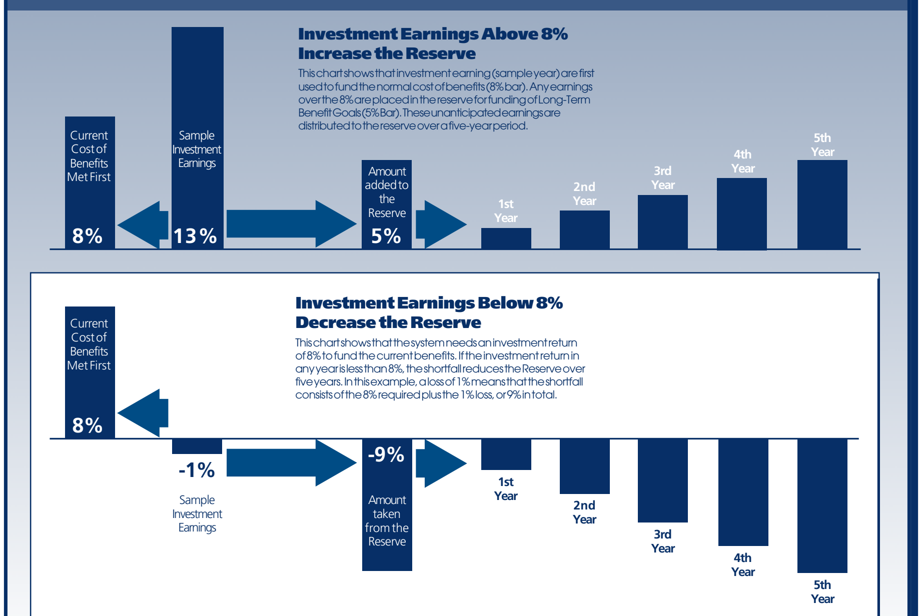
At its December meeting, during which it finalized its legislative recommendations, the board heard a presentation from the South Dakota Investment Office. Matt Clark, the deputy investment officer, said that as of December 1, the SDRS Trust Fund had earnings of 1 percent for the fiscal year.

The system's actuary, Paul Schrader of Buck Consultants, explained to the board that the one percent return, if it didn't change by the end of the year, would mean that SDRS would be approximately $350 million below the amount needed to cover the cost of present benefits. Schrader said the shortfall would eventually come out of the reserve.

After considering the comments of the Investment Office and the actuary, the board concluded that it would be imprudent to recommend costly benefit increases to the Legislature for 2001. OUTLOOK

For the first time since 1996, the SDRS board decided against recommending major improvements.

How Investment Earnings Affect the Reserve



Since *Outlook* charts are for illustrative purposes, the numerical data may be

When Purchasing Credited Service, the Last Month is Critical

If you are near retirement and purchasing credited service, you need to be aware of the date of your final payment. That date should come at least one full month before your retirement to ensure an accurate benefit calculation. Please compare the final payment date with your retirement date to be certain that your purchase is completed well before that critical last month.

OUTLOOK Interview

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to be penny wise and dollar foolish. And she was right. Each year the problem gets worse because our membership is aging, and members who are about to retire or are retired need much more from SDRS than those who are younger.

Outlook: And I don't imagine that trend is likely to change in the near future.

McDonald: Not likely. 2001 marks the first year in which baby boomers will reach 55 and start to retire in large numbers. We're on the leading edge of a very big wave.

Outlook: What about technology? Can't computerization take up some of the slack?

McDonald: Technology has been one of the things helping to keep the system's head above water. But I think we've wrung all the efficiencies we can out of technology. A computer won't ever take the place of discussing your options with a real person.

Outlook: Isn't there a danger that an organization can become over staffed?

McDonald: There certainly is, but we're on the opposite end of the spectrum with SDRS. In 1976, the system had about 4,000 members receiving benefits and a staff of 27. Now, the number of SDRS benefit recipients has nearly quadrupled, and we have only 28 staff members. That's just one more than we had 24 years ago. To put it another way, in 1976 SDRS had one employee for every 1,112 members in the system—today we have one employee for every 2,091 members.

Outlook: But how does SDRS compare with other public retirement plans? Is it possible that they have kept their staffing levels just as low?

McDonald: Buck Consultants has completed a survey of municipal, county and state retirement systems. The survey shows that the average number of plan members for each employee is 1,164. By comparison, we are staffed at a much lower level with 2,091 members for each SDRS employee. To come up to the national average, we would have to increase SDRS staff by about 22 people.

You can also see the problem of staffing when you look at SDRS expenses. We monitor our costs by comparing expenses to our assets and the amount of benefits we pay. Since 1980, SDRS's expense ratio has dropped by 80 percent. That's good news until you consider the cost of endangering our basic services, to say nothing of our capacity to successfully manage the system. It's like trying to save money by not changing the oil in your car. You can do it, but it's a terrible long term strategy.

Outlook: Seems like the numbers speak for themselves.

McDonald: I certainly think so, but somehow we have to communicate the message of those numbers to the Legislature's Appropriations Committee. If we don't, and we're unable to increase staffing levels, we're in danger of losing the quality of our services. And believe me, that's something no member wants to see.

Kathy "K.J." McDonald has represented county employees on the SDRS Board of Trustees since 1997.

"I think we've wrung about all the efficiencies we can out of technology."

OUTLOOK Interview — K.J. McDonald

In preparation for the 2001 legislative session, the board requested and the Governor recommended that SDRS staff be increased by three full-time positions. The Appropriations Committee denied the recommendation. Ms. McDonald argues that SDRS's staffing level is of major importance to every SDRS member.

Outlook: Why should participating employers and contributing members be concerned about the staffing levels of SDRS?

McDonald: Because adequate staffing levels are clearly in the interest of the membership. When SDRS is understaffed, we're not going to get the service we need. And that's what SDRS is all about—service. But we can't expect to maintain quality service without the staff to provide it.

Outlook: What kinds of services are you thinking of?

McDonald: Very few of us understand what's required to manage a $5 billion retirement system that has nearly 59,000 members. We're talking about an environment in which even small decisions represent millions of dollars. SDRS staff has to be skilled in everything from anticipating retirement needs 40 years from now to maneuvering through the complexities inherent in the political arena. We expect them to guarantee that the system is financially secure and at the same time ensure that our benefits are large enough for us to retire in dignity.

As we get closer to retirement, we also expect hands-on, one-on-one attention from SDRS staff. We want someone to guide us through the process, tell us what we need to know. And, of course, there are the day-to-day details like collecting millions of dollars in contributions from over 400 participating employers, sending out thousands of benefit checks each month and responding to nearly 40,000 member telephone calls and letters every year.

Outlook: Those are pretty big numbers, but with 59,000 members I suppose you have to expect a high volume?

McDonald: Exactly. We forget how big an organization SDRS really is. And if service drops off, it will become very frustrating for a lot of people. They're going to wonder why they're not getting their questions answered more quickly; why they can't get through to a retirement specialist; or why it takes so long to have benefit estimates completed. Unfortunately for SDRS, the ability to respond to increased demands is outside of its control.

Outlook: But SDRS has been providing these services for years. Why the big concern over increased demand now?

McDonald: Actually this has been a major concern for a long time. A board member spoke out on this same issue in an *Outlook* interview almost ten years ago. Her comment was that the system couldn't afford

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